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The Andrew Jergens Company  
Associate Editor ..... L. P. Haverkamp  
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# ACROSS THE EDITOR'S DESK

By: Glenn A. Blair  
Retiring Editor, "Business Budgeting" Magazine

For the third consecutive year I'm composing a "Swan song", only this time it's for sure. About a century ago (really, it was only 1954) I stepped into the elevator on the fourth floor of the hotel in Philadelphia where the NSBB National Conference was being held, simply as a convention delegate from Cincinnati; I get off on the main floor as Editor of the Society's national publication. I had made the mistake of getting in the elevator with Harry Kelley, the then new National President, and that smooth Philadelphian made the slickest sales talk, for four floors, you ever heard. But I've enjoyed every minute of the job, especially this particular one, representing the last.

Our first offering was a hefty six pages, in the new heading approved by the Board at the fall session that year; succeeding the loose-leaf mimeographed "Technical Notes", "Business Budgeting" magazine has enjoyed some growth, having been combined last year, with the other two publications ("National Newsletter" and the "Annals") to give the Society a single larger publication with the heft and feel of a genuine magazine. With continued work, it'll get there yet.

Being on the job three years wasn't due to my not having tried not to. Oh, I resigned all right, every year; the trouble is, no one paid any attention. It took two years to find out I wasn't going about it in the right way. You don't get out of an assignment like this by just saying so; while you're shaking hands goodbye with right hand, you have to come up with a successor with left. I might be fooled twice, but not three times. . . you don't edit all these articles on budgeting without learning something about the game. I did some fast "planning ahead", and coyly suggested the staff needed an "associate editor". Like fun! We needed an associate like another head, but we sure as shootin' needed a "prospective editor", and that's what we got. A good one too, so things will really begin to happen, starting with the next publication year.

"Larry" Haverkamp, with a background of secretary and president of the Cincinnati Chapter, NSBB, has been learning the ropes this past year, and we've had a very profitable relationship. . . for me. He's been taking over, and by now he has got took - - pardon me, he has now taken over completely, and if all appointments come through officially as they better had, Larry is the new editor of this here magazine starting as of now, making me a very happy ex-editor. He's budget director of Trailmobile, Inc., in Cincinnati, and a finer fellow you never met.

May I take this opportunity to thank all those who have assisted in making this task a really pleasant one; the chapter presidents and publications chairmen for their fine cooperation; the national officers for their confidence, and the many friends among the membership for their kind words about the magazine. It's been fun. What I'm going to do with all these spare evenings now I don't know, but my wife will think of something. This fall I'll escort a daughter down the aisle to the tune of the Wedding March; a son will be asking for help with his College Freshman homework; and a 10-year old daughter is still filled with a million questions like "Why, daddy?" Best wishes for the future of "Business Budgeting"!

## BRINGING BREAK-EVEN ANALYSIS TECHNIQUES UP TO DATE

By: Henry K. Klopstock

Budget Accountant, American Cyanamid Company, New York

*Steadily rising sales in recent years has obscured good old-fashioned use of Break-Even Analysis. . .but don't be fooled, the need is still present, more so than ever. Here, we read about combining good break-even analysis with foresight, right up every good Budget Director's alley. Adapted from a talk given before the New York Chapter, NSBB.*

In a time when sales volume and profits are rising as we have witnessed during the past years, break-even analysis may not seem to be an up-to-date subject. However, if we realize that certain fluctuations and cycles are more or less inevitable in our economy and that peaks are followed by valleys as the recession in the automobile industry in 1956 has shown after the record sales in 1955 our attention is drawn again to the profit-volume relation.

Break-even analysis can be of help to a progressive management in many respects. It tells us how rapidly profits increase or decrease when business volume changes or in other words it shows us how sensitive a business is to a recession, furthermore it helps us to answer questions like: What increase in sales must be realized in order to justify an additional expenditure for sales promotion and advertising, what additional sales volume is required to absorb an increase in raw material costs, or at what percentage of capacity must a plant operate in order to provide a certain return on investment?

However, I believe that studies in break-even analysis have their greatest value if they are made with foresight, i.e., in connection with long range planning, if we want to determine how much we have to expand our production capacity in order to be able to keep our present market share in five or ten years from now without running the risk of overexpanding and incurring a loss.

## BASIC THEORY OF BREAK-EVEN ANALYSIS

The basic theory of break-even analysis is simple: The point in the operations has to be determined where the income is equal to all expenses. As some costs vary with the volume while others are practically independent from the level of operations and are therefore called fixed, the break-even point will be reached when the excess of income over the variable costs which is often called the marginal income equals the fixed costs. This can be expressed mathematically by the following equation:

B.E. sales      fixed costs      Whereby marginal income means  
                         M.I.      sales minus variable costs ex-  
                              pressed in percent of sales.

This formula can be also used to determine the sales volume necessary in order to make a certain profit. It then takes the following aspect:

Required sales volume  $\frac{\text{fixed costs \& net profit}}{\text{marginal income}}$

The validity of this formula can be easily proved by the following simple example:

Let us assume that the variable costs in a business amount to 60% of sales, therefore leaving a marginal income of 40%, the fixed costs amount to \$100,000 and the desired net profit is \$20,000. In order to calculate the sales volume required all we have to do is substitute these figures into our formula:

$$\text{Sales Vol.} = \frac{100,000 + 20,000}{40} = \frac{120,000}{40} = \$300,000$$

The proof is as follows:	Sales	\$ 300,000
	Minus Var. Cost (60%)	180,000
	Marginal Income	- 120,000
	minus fixed costs	- 160,000
	Net Profit	\$ 20,000

As can readily be seen the problem centers primarily around the separation of fixed and variable costs.

In a number of cases the answer is pretty obvious: Raw material costs, commissions and cash discount are practically always truly variable while expense elements like depreciation, real estate taxes and fire insurance are easily recognized as fixed. They are sometimes also called period costs as they arise by the mere lapse of time. The classification of direct labor depends on the type of industry. In many industries it is a variable cost element; for the number of drilling and boring machines in the metal industry or the number of molding presses in the rubber industry which have to be operated varies directly with the quantity of pieces which we want to produce, therefore the number of people employed in direct labor is proportional to production.

However, in many processing industries, like the chemical industry we find rather different conditions e.g. in the production of dyestuffs and other organic chemicals many operations are done in the form of batches. Regardless if we fill the tanks to their full capacity of let us say, 1000 gallons or if we make a batch of only 500 gallons we always need the same crew. In the production of heavy chemicals direct labor costs are characterized by the fact that they are fixed over rather a wide production range. Only if we want to go beyond a certain production volume it becomes necessary to add another production unit and labor costs make a sudden jump, we can therefore refer to them as step costs.

### SEMI-VARIABLE ELEMENTS

In between the fixed and variable costs we have the conglomeration of the so-called semi-variable elements, which, however, are very heterogeneous in their nature and, what complicates it most, assume a different character in various industries and sometime even vary from company to company. Therefore a careful analysis is imperative. In order to separate the fixed and variable part of an expense element we have two different methods at our disposal, i.e. the synthetic or engineering method consists in estimating the various cost elements for different production levels, starting from the point where the plant is in a stand-by position. As usually technical experts are needed to make these estimates we speak of the engineering method and as the costs are built up and put together it is sometimes referred to as the synthetic method. The analytical or historical method on the other hand starts from actual figures in the past, therefore, historical method and analysis the fixed and variable content by geometrical or mathematical procedures which explain the name analytical. When using the geometrical method the cost element which we want to analyze is plotted on the ordinate, the vertical line, while the yardstick against which we are measuring is plotted on the



abscissa or horizontal line. In this way we obtain a scatter chart. Then a line of the best fit that means which comes closest to as many points as possible is drawn. The distance between the intersection with the ordinate and the origin constitutes the fixed part and the distance of the various points of the regression line from a line drawn through the intersection parallel with the abscissa is the variable part. This method is rather simple but not very accurate. Much more precise, is a mathematical procedure known as least square method, which is illustrated by the following case study.

In order to budget the coal consumption in the Molding Dept. in a rubber plant for a higher production level the fixed and variable portion of this expense element had to be determined. As direct departmental labor hours seemed to be the most logical yardstick against which to measure coal consumption the following tabulation was made up showing direct departmental labor hours in the first column and coal consumption in the years from 1945 through 1953 in the second column:

### COAL CONSUMPTION PER LABOR HOUR

(Note: All figures shown in case studies are fictitious with the exception of those which are officially published)

Year	Dir. Dept. Lab. Hrs. In Thous.	Coal Tons In Thous. Tons	XY	X <sup>2</sup>
	X	Y		
1945	112	3.5	392.0	12544
1946	79	2.6	205.4	6241
1947	85	2.7	229.5	7225
1948	93	2.8	260.4	8649
1949	73	2.7	197.1	5329
1950	101	3.2	323.2	10201
1951	107	3.3	353.1	11449
1952	97	3.0	291.0	9409
1953	99	3.1	306.9	9801
Total	846	26.9	2558.6	80848

By plotting these figures we arrive at a scatter chart as described, indicating that a straight line would provide the best fit. Therefore, in order to determine this so-called regression line mathematically, we use the equation for a straight line, i.e.:  $Y = a + bX$  whereby "b" is the distance between the intersection with the ordinate and the origin and "a" expresses the slant or we can also say the percentage factor by which we have to extend the basis in order to obtain the variable part of the coal consumption. The formula to calculate this factor "a" is as follows:

$$A = \frac{N(E \times Y) - E \times 2Y}{N E \times 2 - (E \times)^2}$$

N is the number of observations used, E stands for sum, x are the actual direct labor hours and Y the corresponding tons of coal consumption.

The fixed portion is computed as follows:

$$b = \frac{EY - AEX}{N}$$

If we substitute the figures of our example into these equations we obtain the following result:

$$A = \frac{9 \times 2559 - 22757}{9 \times 80848 - 715716} = \frac{23031 - 22757}{727632 - 715716} = \frac{274}{11916} = 2.3\%$$

$$b = \frac{EY - AX}{N} = \frac{26.9 - .023 \times 846}{9} = \frac{26.9 - 19.5}{9} = \frac{7.4}{9} = \underline{\underline{822 \text{ tons}}}$$

(fixed portion)

If we compare the actual coal consumption in the various years with the values according to the computed regression line we get the deviations which are shown in percent in column 2 of the following tabulation:

Year	Actual Deviation in Percent $Y - Y_1$	$(y - y_1)^2$
1945	+3	9
1946	0	0
1947	-4	16
1948	-7	49
1949	+8	64
1950	+3	9
1951	0	0
1952	-3	9
1953	0	0

$$\text{Standard Error of Estimate} = \sqrt{\frac{(y - y_1)^2}{n}} = \sqrt{\frac{156}{9}} = 17.3 \cdot 4.2\%$$

This means that the probable deviation amounts to about 4.2 which gives the computed figures a reasonable degree of reliability.

### FIXED FUEL CONSUMPTION

The calculations above show that about 820 tons were fixed fuel consumption which was required for heating the boiler and for losses in the pipe lines through radiation regardless of the production level at which the plant was operated. This became even more apparent by a further study in which two charts were made, one for November through April and another for May through October. The fixed portion in the winter months when radiation losses were more severe was considerably higher. We have here a case where the fixed portion of an expense element also becomes variable but dependent on seasonal factors while the portion which is variable in the true sense, depends on the production level.

Also with some supplies which usually are wholly variable, we had a similar situation. For a dry-icing operation carbon dioxide and alcohol were required. The usage of these supplies was determined by the amount of those supplies which was lost through evaporation regardless of the production level. Another important semivariable element is indirect labor where we have to deal with material handling, setting-up of machines, and tool and machine maintenance. These costs depend only partly on the production volume as a decrease in the order size will not result in a decrease in setting up costs though the production volume is reduced. Especially as far as maintenance and repair costs are concerned we have to be careful as they are partly related to corrosion and partly to the extent to which the machines are used. In specific periods they may even run contrary to the production volume, as often repair and maintenance work is deferred if possible to a time when business is slower. Therefore, for this expense element the engineering method is to be preferred. Also, with regard to other semivariable costs, it is advantageous not to rely on the analysis of past figures alone but to make cross checks with the engineering method.

I would like to point out a special situation which we find in industries where one product serves as intermediate for other products, particularly in the chemical industry. We are then faced with so-called rolled up costs. The following example will illustrate this matter:

## "ROLLED UP" COSTS

In order to manufacture compound A we need a raw material B which we are purchasing and an intermediate C which we are producing ourselves. We recognize at once that the purchased material B represents a wholly variable element, for if there is no more demand for product A we can stop our purchases of material B and eliminate this cost element. However, even if we shut down the production of intermediate C completely, the fixed costs, particularly depreciation remains and we are saving only the variable elements like, raw material, purchased utilities, etc. Therefore, in order to determine the true marginal income from product A we have to accumulate the variable expenses according to the following calculation:

Compound A 100 lbs sales value	\$100.00
Contains direct variable costs (purchased material, direct labor, etc.)	25.00

Furthermore, we require 50 lbs of intermediate C manufactured by us, which contains purchased material and utilities in the amount of \$35.00 per 100 lbs.

Therefore variable costs in 50 lbs of intermediate C	\$ 17.50
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Total variable cost in compound A	\$ 42.50
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which is 42.50% of the sales value of \$100.00, resulting in a marginal income of 57.5% for this compound.

This is a very simple example; however, in the chemical industry where often a whole chain of intermediates is required to arrive at the finished product the computation may become somewhat involved.

We come now to a group of expenses which comprise supervision, engineering, selling and administrative salaries. Some consider them just as fixed while others assume a certain degree of variability. There is some justification for both concepts. Those expenses are fixed in so far as they are not likely to change in any appreciable way as long as the volume stays within certain limits. On the other hand they may be considered semivariable as also the number of salaried personnel will be increased or decreased when the business volume goes above or falls below the normal range of operations; however, never mind how much the volume drops, a certain number of key personnel will always be required to keep the company as a going concern.

## MANAGEMENT REGULATED EXPENSES

The salaries for such key personnel constitute the fixed portion. However, there is a difference between this kind of semivariability and the behaviour of cost elements like fuel, or supplies. While the fixed and variable portion of those expenses is more or less determined by the nature of the plant and its operations as we have just seen from the example of the coal consumption in a rubber plant, in the case of salaried personnel much depends on the judgment of management which decides at what point personnel should be added or dropped and what employees are to be considered as indispensable key personnel. It seems therefore, most appropriate to refer to these costs as regulated expense, which means regulated by management decisions.

How should we treat such expense elements in the break-even analysis? Well, if we are concerned with the profit-volume relation within a more or less normal range of business operations we can treat them as fixed without incurring the risk of any substantial distortion.

If, however, our analysis refers to levels beyond these limits we shall have to study past figures which means applying the historical or analytical method as described before and we shall have to familiarize ourselves with management policy on this point. This is the aspect which engineering or synthetic method takes in this case.

Of a similar nature as salaries are advertising and research expenses as their magnitude depends on management decision rather than on any other factor. There are of course cases where the amounts to be spent for these items are based upon sales volume but usually they are appropriated by management as a fixed amount. Therefore we have to treat them accordingly in our analysis.

I believe that we have reviewed all the important expense elements. We have seen that we have to deal with various problems when we study the behaviour of cost elements in relation to volume, however, we can say that in the vast majority of cases it is possible to come up with an answer which is satisfactory for all practical purposes.

## VARIATION BY PRODUCT MIX

However, we must bear in mind that separation of fixed and variable costs alone does not give us the whole answer to our break-even analysis. As we have seen before, the break-even formula shows the marginal income in the denominator, which is the excess of income from sales over variable costs, expressed as percent of sales. If a company manufactures only one product, like many utility companies, the marginal income is well defined. If, however, a great number of products are manufactured as it is the case in most companies the marginal income will vary according to the sales mix as the following figures indicate:

	Sales	%	\$
Prod. A	\$ 50,000	60	\$30,000
Prod. B	30,000	40	12,000
Prod. C	20,000	20	4,000
	\$100,000	46%	\$46,000

We assume the fixed costs with \$40,000, therefore

$$\text{B.E.} = \frac{40,000}{.46} = \$87,000$$

Now the same volume but with a different sales mix:

Prod. A	\$ 20,000	60%	\$12,000
Prod. B	30,000	40%	12,000
Prod. C	50,000	20%	10,000
	\$100,000	34%	\$34,000

$$\text{Therefore, B.E.} = \frac{40,000}{.34} = \$118,000$$

This shows how important the sales mix is and it seems that it can make the break-even analysis illusory if we can not find means of controlling it. Fortunately, there is a way of controlling the sales mix. We have to ascertain if the marginal income on which we are operating is about the same as the one which results from the sales budget and on which our break-even analysis was based. This control can be performed in the following way even if a great number of different products is sold:

Step 1. For all product groups, the variable costs have to be determined with the help of the methods outlined above.

Step 2. Whenever orders are coming in besides the sales figures, the amounts of the marginal income are totalled. By dividing the latter by the total sales figure we obtain the percentage of the marginal income composite on which we are operating. If it agrees with the figure on which we have based our budget and break-even analysis and assuming of course that our fixed costs are in line then we have a control from day to day that our break-even point did not change and that the net profit will not vary on account of a change in the sales mix.

### EFFECT OF SALES MIX REVISION

The figures in case No. 3. will illustrate this point. We have again the same sales volume, i.e. \$100,000; distributed in the following way between products A, B and C:

	<u>Sales</u>	<u>M.I.</u>	
Prod. A	\$ 40,000	60%	\$24,000
Prod. B	50,000	40	20,000
Prod. C	<u>10,000</u>	<u>20</u>	<u>2,000</u>
	\$100,000	46%	\$46,000

Though the sales mix is entirely different from case 1 the composite M.I. and therefore the break-even point are the same. If, however, the resulting composite M.I. is lower as it is in case 2. then we have to impress on the Sales Department to promote the sale of higher margin products or to increase the sales volume. Applying our example again, the following computation shows how much we would have to expand our sales volume to offset the unfavorable change in the sales mix and to arrive at the same net profit:

$$100,000 \times .46 = X \times .34$$

$$X = \frac{46,000}{.34} = \$135,000$$

If such an increase of the sales volume is not feasible, management has to be notified, and has to decide if we should counteract by reducing certain regulated costs or if the decrease in net profit can be taken.

This sort of control can be performed over new orders as well as over shipments. We can determine every day if the shipments will yield the budgeted net profit and at the end of each accounting period we can show in a report to management what portion of a change in net income is due to volume variance, sales mix variance or efficiency variance as illustrated by the following example:

Budgeted Sales	\$100,000
Actual Sales	<u>90,000</u>
Variance	-10,000
 Budgeted M.I.	 46%
Actual M.I.	<u>40%</u>
 Budgeted Net Profit	 \$ 20,000
Actual Net Profit	<u>8,000</u>
Variance	\$-12,000

Excess of Sales income over Variable costs:

Budgeted 46% of \$100,000	\$ 46,000
Actual 46% of \$ 90,000	<u>41,400</u>
Therefore Volume Variances	\$ 4,600

Budgeted M.I. 46% of \$90,000	\$ 41,400
Actual M.I. 40% of \$90,000	<u>36,000</u>
Sales Mix Variance	\$ 5,400

Which leaves an efficiency variance of \$2,000 provided that there are no changes in raw material prices or wage rates.

Finally, by calculating the difference between new orders and shipments and the marginal income contained therein we can determine what net profit we can expect from the backlog.

### WHEN TO APPLY BREAK-EVEN ANALYSIS

After we have discussed the factors on which the break-even analysis is founded, we can turn to the question where and how break-even analysis should be applied. Should it be used in analyzing a single product, product groups, departments, and divisions or the company as a whole.

Obviously, the smaller the unit from which we are building up our analysis the more accurate the picture will become. However, it is not advantageous to go so far down the line that products are separated for which the same production facilities are used as then too much time has to be wasted for allocating the various fixed costs like depreciation, maintenance, insurance, supervision, etc.

When determining the break-even point of the divisions or departments of a company, we have to be careful that the allocation of administrative expense is made in a way which takes the economic viewpoint into consideration which may not always agree with established accounting procedures. For very often, administrative expense is allocated to divisions or departments on the basis of sales which makes these costs act in the division statement and of course also with regard to the break-even point as if they were variable though actually they are predominantly fixed; for if the sales in division A are falling off does it actually mean that less work has to be done for it by the administrative department?

In the vast majority of cases an analysis will show that not the number of orders is decreasing but rather the size of the orders. Therefore, still about the same number of orders has to be processed by the order department, still the same number of entries has to be made by the accountants and top management may even devote more of its time to a division which is showing poor results. In order to overcome this difficulty the following procedure will be helpful: Administrative costs which depend on the number of people employed like personnel department, medical department, and pension fund should be allocated on the basis of the number of people actually working for each division while for the others, a fixed portion should be applied, based upon normal production whereby the latter would be calculated on the basis of production capacity. By such a procedure it would be avoided that fixed costs are arbitrarily treated as variable and become a source of distortion.

I also want to point out a difficulty which arises if a part of the production of a division is transferred to another division at cost. In this case the marginal income for a part of the production of the transferring division is reduced and its break-even point is raised accordingly. This distortion can be avoided if the transfer is made at market price and if no market price exists the profit on the end product has to be split in the proportion of the costs arising in the two departments.

(Continued on Page 18)



## THE ECONOMY OF 1957 -- A BUSINESS FORECAST

By: John P. Lewis

Professor, Graduate School of Business, Indiana University

*Before just going along with the great majority in predicting that 1957 will be another "good" year, let's take a closer look at all the factors involved, and at least have some reason for making such prediction. As one business man has said: "When things are good they are very, very good . . . and when they are bad, they are still good!"*

1957 will be a good year, except . . .

Before we get into the details this phrasing leads to, let's first discuss the interpretation of business conditions with which we are presently being bombarded. It would seem fair to say that a great many of the business conditions pundits are presently in a state of profound nervousness. Personally, I am inclined to think that most of the ups and downs we are having reported to us in the business literature is more a reporting of weekly bullishness or bearishness rather than a considerate long-term analysis. Therefore, a great deal of this uneasiness is more indicative of the reporters than of the economy.

I think that a great deal of this uneasiness originates in the reporters through their efforts to appraise 1957 by using a rather old fashioned concept. I would be the last to admit that the business cycle is dead, but I do contend that the business cycle is pretty well licked. This comment is advanced in the sense that we should not expect down-turns of the proportions of 1929-33 and probably, if we keep our wits about us, not of the proportions of 1937-38. I do not think there have been any single astounding changes in our economy justifying this conclusion but simply a complex of changes in both public and private policies.

### Characteristic Pattern of Business

In the past the economy used to pretty regularly snowball little problems into big problems. The characteristic pattern of business developments, when on the down-side up to twenty years ago, was that, if we had one real area of weakness develop, there were in the economy all kinds of cumulative mechanisms that very quickly spread this infection to a broader and broader area until we had a general down-turn - a down-turn that sometimes got badly out of hand. Now there is, I think, no question that these cumulative mechanisms have been weakened a great deal in the last twenty years, not as a part of a grand plan, but more or less inadvertently as a result of other things. For instance:

1. - Government spending, whether right or wrong, does provide the economy with a large, relatively stable year-in, year-out source of demand that, in some respects, helps other segments of business.

2. - Again inadvertently, certain types of the so called built-in government stabilizers cause government spending to run counter to fluctuations in the private sector of our economy. I am thinking primarily of unemployment compensation and farm price supports.

3. - The most important of the stabilizers, and deserving special attention, is the progressive income tax. This factor has the effect of reducing the responsiveness of consumer's disposable income to fluctuations in the whole level of income or gross national income, by having the government absorb a large portion of any sales declines. This was the situation during the recession of 1953-54. In this case we saw a significant decline in gross national product and at the same time witnessed a gradual rise of consumer's spendable income throughout the recession. This is a considerable accomplishment

and one which lends encouragement when contemplating future recessions.

4. - In the field of private policies, one of the great stabilizers is industry's long-term capital investment program. Management today is relating long term investments with long term growth of the economy and national markets as opposed to the previously prominent short-term outlook. This of course, reduces the sensitiveness of capital spending to the short run ups and downs in the market place.

5. - Certain wage and pricing policies of business have also contributed to the weakening of these cumulative mechanisms.

### Forecast - Routine Prosperity

By underestimating the points mentioned above and by retaining the basic principles of the old business cycle theory it becomes easier to understand certain prognostications regarding 1957. Based on this theory, it seems that a bust, or at least a serious recession, must follow a boom such as we had in 1955-56. On the contrary, and based on the comments above, it seems to me that a better catch phrase for the conditions prevalent in 1957 is "routine prosperity." By this I mean a situation which is far from booming, which can include some pretty miserable business for particular firms or even whole industries, which can mean a squeezing of some of 1955 and 1956 profits, which can mean some greater unemployment, but primarily should mean there will be no snowballing of individual weaknesses. The phrase today is, "rolling adjustment," and I would say it will be a rolling adjustment in an uphill direction.

This represents my thoughts of the outlook for the national economy during 1957. Now before we contemplate individual sectors of the economy, let us first move back in time and get a running start. 1953 and 1954 were years of recession primarily because of the increases in productivity that are logged year in and year out. The health of the over-all economy depends upon the relation of sales (or of "demand") to capacity. During the 1953-54 recession the absolute dollars of gross national product declined very little. But they declined relative to the physical capacity of the economy, which kept on growing at a rate of something like \$15 billion a year, thanks to the 3% average annual growth in productivity, and 1% from the size of the labor force. This led to under-production and unemployment. It was 1955 that pulled the gross national product from its recession state of \$360 billion to over \$400 billion -- mainly because of the tremendous pick-up in consumer's durables, especially in autos, and in housing. In 1956 consumer spending for autos and housing eased off, but the phenomenal spending for plant and equipment picked up the slack - and then some - causing gross national product to rise to an annual rate of \$424 billion in the fourth quarter of 1956. Due to the heavy capital expenditures by business during 1955 and 1956, it seems altogether likely that 1957 will record strong increases in productivity. This then indicates a gross national product by year end of some \$440 billion, without price increases, if we are to produce at com-

fortable full production and full employment levels.

### Will Demand Remain Steady?

The forecasting problem for 1957 is: Do we have the demand to absorb this additional capacity? Or, conversely, will there be too much demand, thereby causing inflationary pressures? I think the answer to this question is that we have sufficient or probably will have almost enough demand to absorb our production capacity, but that -- assuming the status quo internationally -- we almost certainly will not have any general excess of demand. I base this on the following analysis of the segments of the economy:

1. - Housing should further decline this year. This is generally agreed upon. It is estimated starts will run about 900,000, down 10% from 1956. However, due to the size of today's homes dollar volumes will not decline to this extent.

2. - Plant and equipment spending almost has to level off somewhat. From all indications of the surveys, we can expect something of a 10% increase over 1956 with the possibility of tapering off in the third and fourth quarter.

3. - Accepting the fact that automobiles are not moving as well as was expected, we can still anticipate about a 7% increase over 1956 of consumer spending for automobiles. Other consumer durables seem to be in a 'iffy' condition with very good prospects that the trend will be up due to basic underlying strength in consumers' income. Supporting this view are very encouraging results of the retail sales during the first quarter.

4. - Consumer's services are anticipated to be up primarily due to the level of consumer's income.

5. - Finally there is the surest thing, so far as 1957 is concerned, and that is the growth in government spending. If 1955 was the consumer year and 1956 was the plant and equipment year, then 1957 is the government year. Again, this is not arguing the merits of government spending but just from a business condition's point of view it's a rather reassuring thing. The outlook for this factor is an additional \$4 billion in federal spending, mostly after July 1, and at least \$2 or \$3 billion more in state and local spending. To me this adds up to a basic picture of growth, but not enough growth in demand to create underlying inflationary pressures of the classic sort, that is - an excess of demand over supply at the going price levels.

### Two Important Factors

Although they are not specific spending segments of our economy there are two factors that deserve our attention. The first is federal monetary and credit controls and the second is price inflation.

The government's most readily available weapons for fighting inflation are monetary and credit controls. As you all know, we are in the midst of a tight money policy. A continuance of this policy would probably adversely effect consumer durables, housing and perhaps inventory investment. And, most vulnerable of all of these policies are the bond-financed outlays of state and local governments, which often are limited by law to the maximum interest rates they can pay. This then means that a considerable part of the outlook for 1957 is contingent on the policies of the Federal Reserve System. I do not pretend to be able to forecast the action of the "Fed." However, my own guess is that Fed. policies, now are in a relatively neutral state; that the authorities are aware that much of the inflationary push of 1955-56 is past, and that they will move quite briskly toward an

easier monetary situation as soon as they feel there is any need for it.

With respect to price inflation, my contention is that we do not have - either now or in prospect - any real excess demand. But one does have to admit, of course, that we have had and are continuing to have some price increases. Our problem, however, is not that of a traditional "demand-pull" inflation, caused by an excess of total demand over total supply at existing prices. Instead it is what has come to be called a "cost-push" price inflation. By this we mean price increases that arise, not basically on the demand side of the market, but on the supply side as a result of passing on cost increases in pricing policies; the cost increases arising both in raw materials and in wages. Wage increases which are granted in excess of productivity gains help to set in motion a whole set of interlocking practices which become a kind of escalating mechanism that keeps pushing up prices with one affecting the other.

### Monetary Policy Regulates Demand

Where we have a government committed to a full employment policy with the support of our monetary authorities, where both the government and public are opposed to anything like the OPS or OPA, and where credit is being administered by private bankers monetary policy becomes a comparatively ineffective device for stopping this kind of price inflation. Monetary policy can stop it only if it clamps down so far that you get significant drops in production and employment. And this, obviously, is not the desire of the government, and in my judgment should not be. To put the problem another way: Monetary policy is primarily a regulator of total demand whereas the root problem arises on the supply of the market. Hence, we see the reason, I think, for the apparently ineffective preaching about private price and wage policies that the President has been doing lately -- everybody be good, don't be socially irresponsible -- there is very little else he can do.

With respect to 1957, as I have indicated, it seems to me that the pressure on the demand side will not be severe. But I do expect some further increases in prices, especially at retail, as a result of this escalator action. I do not believe the increases will be as large as they were in 1956, because I expect some very sizable gains in productivity with its corresponding reductions in unit cost.

In summation, 1957 will be a year of "routine prosperity," a growth in production and employment, perhaps also, a growth in unemployment and some up-creep in prices - not a lush year, but really a very satisfactory one.



### NATIONAL EXECUTIVE COMMITTEEMEN GET THEIR HEADS TOGETHER

Members of the National Executive Committee paused in their work, at a recent meeting in Kimberley-Clark offices in Chicago, for this candid photo. Left to right, Everett Yount, Charlie Eckelkamp, Don Cartland, Bill McGuire, Mel Aichholz, Chick Reynolds, Visch Millar.



## NEW ROCKY MOUNTAIN CHAPTER OF NSBB RECEIVES CHARTER FROM NATIONAL PRESIDENT



The Rocky Mountain Chapter of the National Society for Business Budgeting received its charter from W. D. (Bill) McGuire, national president, on April 22, 1957, in Denver. In the photograph above, left to right, are: Jack L. Watson, United Air Lines; William Purdin, Daniels & Fisher's; Dan Santry, Rocky Mountain Maytag; Al Porter, Colorado Interstate Gas; Dan Sheldon, Stanley Aviation; Wayne Smith, Jefferson City Schools; W. D. (Bill) McGuire, National President; Don Stevens, United Air Lines; Travis Cramb, Sundstrand, Denver; Marvin Larson, Frontier Airlines; Marvin Owens, Central Bank & Trust; John Yeonopolus, Colorado Interstate Gas; Charles Lockwood, Rocky Mountain Arsenal. (Photo courtesy D. H. Stevens, president of the Rocky Mountain Chapter, NSBB.)

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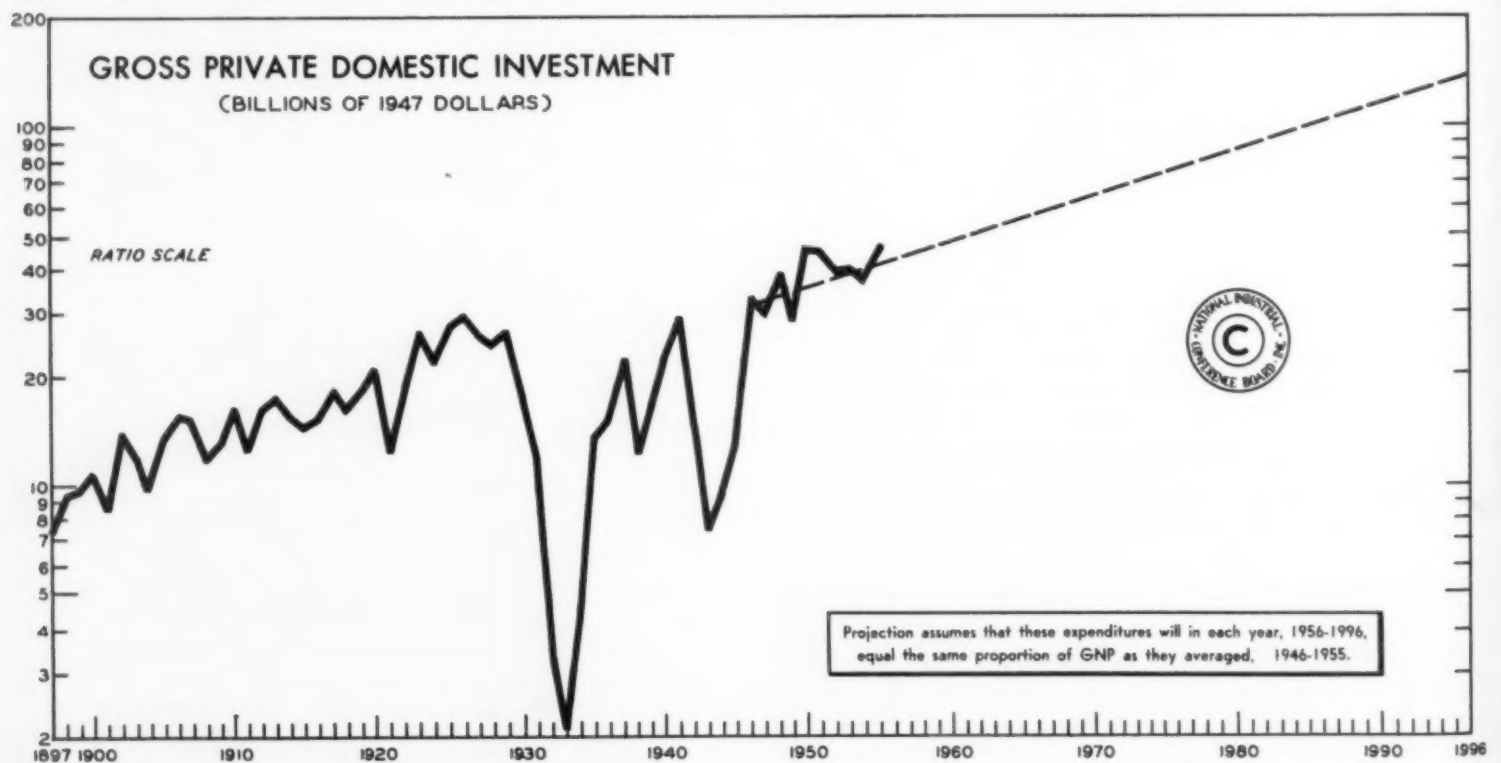
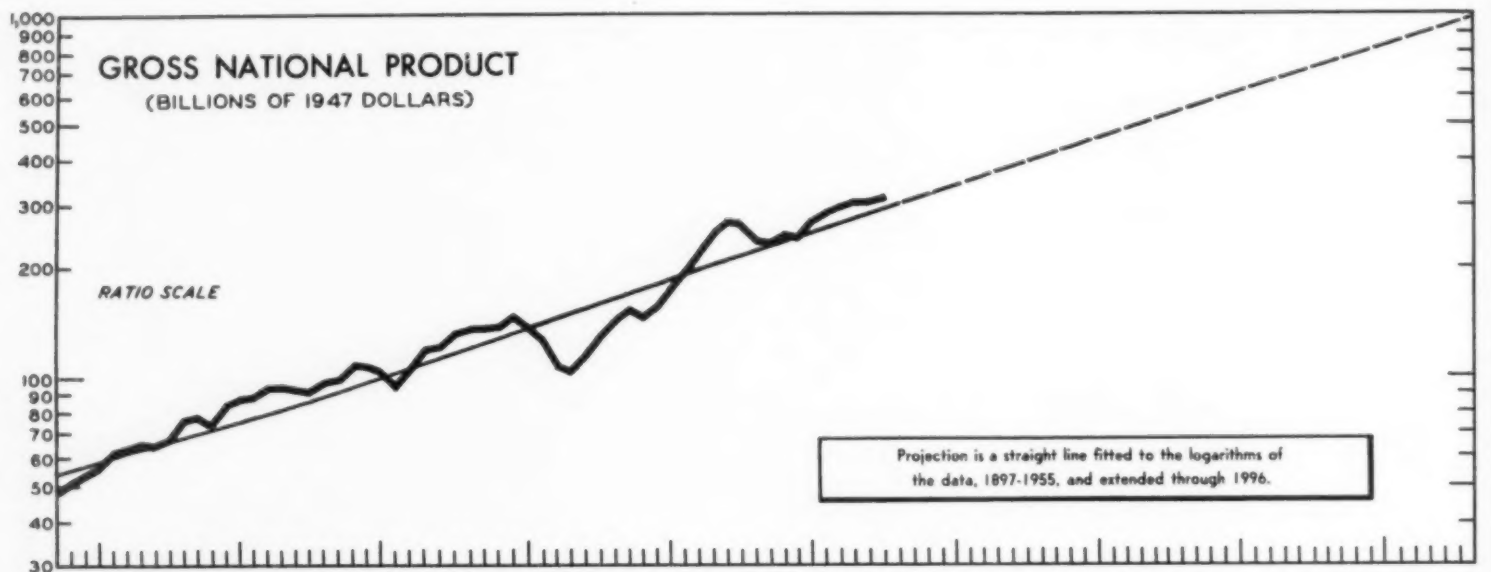
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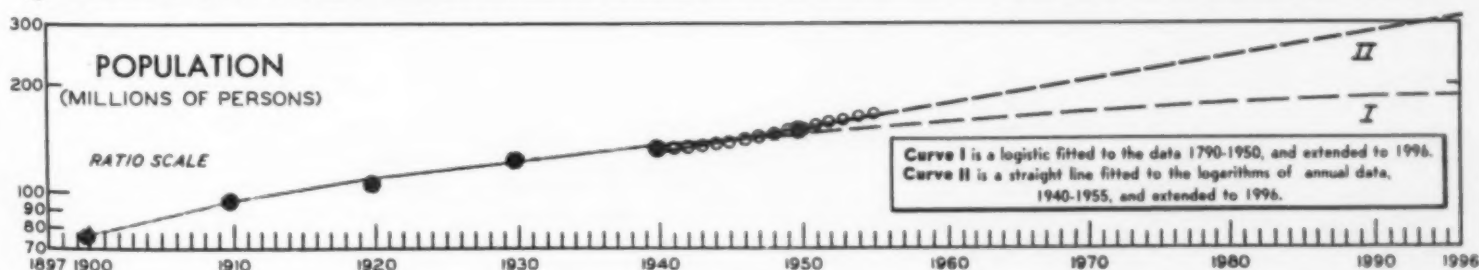
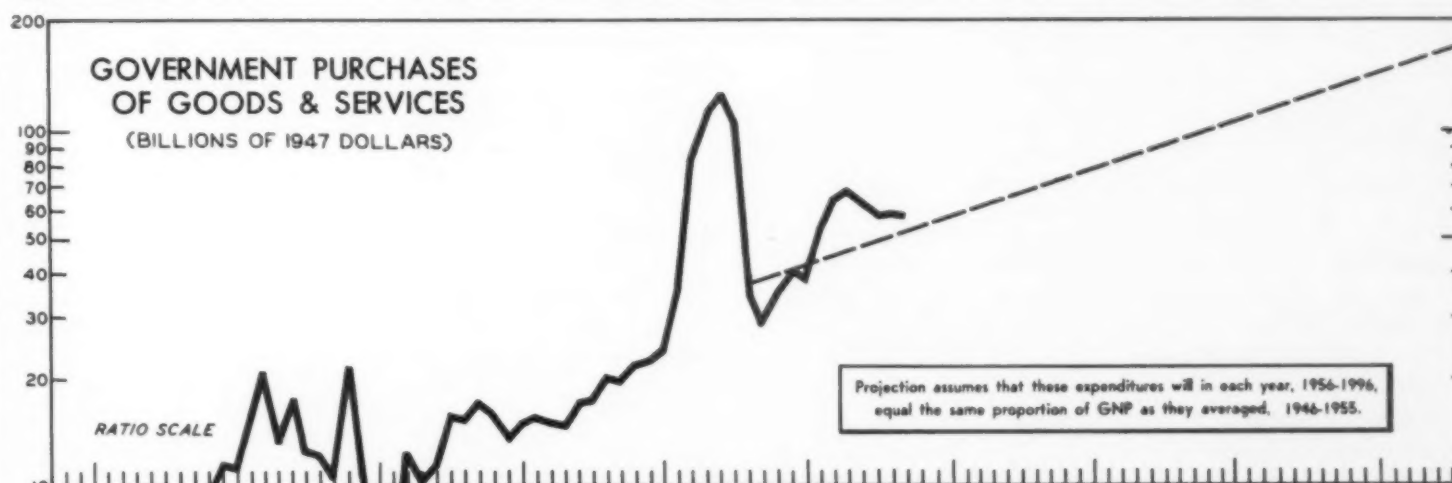
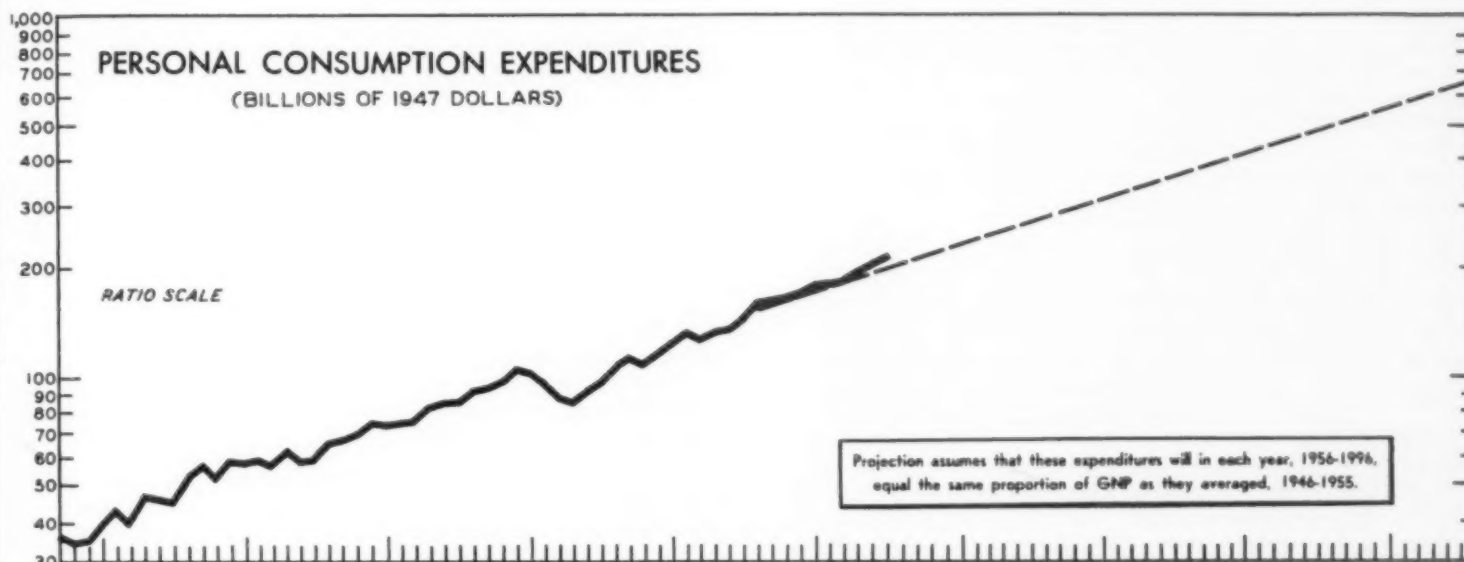
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It is with the deepest heartfelt sympathy for his family that we report the death of JOSEPH N. HOFFMAN, Budget Analyst, Trailmobile Inc. and Secretary-Elect of the Cincinnati Chapter. JOE was called away suddenly from this earth on April 28, 1957.

# ANOTHER FORTY YEARS - I



# YEARS-IF WE KEEP THE PACE



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## COST CONTROLS FOR THAT DREAM OF A LIFETIME --- A NEW HOME OFFICE BUILDING

By: Robert L. McCaffery

Managing Director, Weissburger Moving & Storage Company, New York

*Adapted from a talk given before the New York Chapter, NSBB, this article presents a lot of facts, about an event that happens only once in the lifetime of a Budget man - - - planning a New Home Office Building. If you're not in the market right now, read this anyway . . . you can dream, can't you?*

I enjoy this subject of planning new home office buildings, or new space in existing buildings. It's a fascinating experience to be assigned to such a project, and one which most of you in corporate work will be faced with only once, if at all, in your business lifetime. It is also, I might add, an experience which you will enjoy more in retrospect than while going through it.

This subject is so complex that in the space allotted it will be possible only to sketch it for you in telescopic fashion. I will attempt to approach it from its broadest aspect: planning your own new office building which will become the headquarters of your company. All of the problems inherent in planning new space in an existing building or a building being constructed for leasing to multiple tenants are to be found in planning your own building, but in addition there are a variety of problems peculiar to planning a special purpose building such as a new home office headquarters.

We will review as briefly as possible the major elements of a building program, in each area pointing to the opportunities for controlling costs. We will discuss:

The internal organization required for the job;

The preliminary studies of departmental space needs, work flow, and site size and location;

Selection of the architect, the builder, and consultants;

The planning of layouts, etc.;

And, finally, the move to the new building.

Let's start with the assumption that your top management has decided that you have exhausted your ingenuity as to maintaining an efficient operation in your cramped offices, and studies already made indicate the need for a substantial amount of additional space.

### Appointment of Director

Now, you want to go ahead and build a new building of your own. And it is precisely at this point that you must make the one decision which will have the most profound effect on your ultimate costs. Here is where so many corporations, skillfully managed in all other respects, make a colossal mistake. The President appoints a committee to supervise the program. Well, gentlemen, many buildings have been built by committees, and many in the future will be, but oh! the cost and the agony!

Committees have a place in a new building program. But the most effective single cost control to establish in any such program is the placing of full responsibility for the entire operation in the hands, the mind, and the heart of the senior officer of the company most likely to produce the desired results. Committees discuss, debate, and procrastinate. All too frequently, they are little more than a device for organized loafing. Building programs call for hundreds of quick decisions to be made by the owner throughout the life of the job, and this calls for a clear-thinking, action-minded individual.

It is difficult to generalize as to what type of man this should be. But in my experience, the finest results have been obtained not from the Engineering Vice President type, but from the Controller or Administrative Vice President type. These men have been dealing with the operations of the office as a regular part of their duties, whereas the engineering vice president has been concerned more with construction of plant and production facilities.

The Controller or Administrative executive not only has an intimate knowledge of the office operations -- he also has been struggling with costs long enough to pierce the veil of plausible-sounding but uneconomic recommendations by architects and designers more concerned with aesthetics than control of costs.

As I said a moment ago, it is difficult to generalize. The engineering vice president in one company may have all the desired qualities, while the controller may be an old fuddy-duddy obstructionist. The important point is this: The president must select one qualified man noted for his leadership, his diplomacy, his ability to act decisively -- give him full responsibility for all decisions -- and divorce him temporarily but completely from his ordinary duties. This, believe me, will be the most substantial contribution the President can make to the program in the way of cost control.

Now that you have selected the man whom we will call the New Building Director, you must also give him an adequate staff of full-time assistants, principally drawn from the department which has handled your layouts and methods work. You can then, if you wish, run riot with committees. In fact, if you make it clear that these committees are purely advisory, to be called upon for help and guidance when requested by the New Building Director, then you may obtain considerable value from such groups. I will return later to the matter of committees, but first let's look at the preliminary studies required before the New Building Director and his staff get into the actual building program.

### Size of Site

Perhaps your top management has a pre-conceived notion as to where the new building should be located. If all the bosses live in Westchester or Connecticut, they probably would prefer a building in the Grand Central area, if not in Westchester itself.

But the location of the building must depend on other more substantial considerations. The size of the site required will be a major factor in determining location, and such size can only be determined after studies have been completed on these subjects:

1) Departmental relationships -- which departments have close dependence on others for efficient work flow.

2) Space needs of each department -- some may have rapid growth possibilities, because of sales potentials or new product developments; others may contract in the

future through mechanization or electronification of operations.

3) The optimum-size floor area required, taking into account these relationships and space needs. Let us remember that the design of any home office building must initially be dictated by the pattern of the company's organization as it exists at the time of occupancy. But this process is reversed after occupancy, and departmental organization will from that time on be conditioned by the limitations imposed by the design of the new building. Whether this influence will be of a favorable or unfavorable nature will depend on the degree to which the building is planned to permit freedom of organizational development or adjustment.

Consequently, it is essential that much thought be given to these departmental relationships, space needs, and optimum-size floor areas. Then only, when this has been completed, will you know the size plot you must select for your new building, because you will know that your present organizational set-up and foreseeable future requirements indicate a need for floor areas of 10,000 sq. ft. or 25,000 sq. ft. or 50,000 sq. ft. per floor.

Let me sound one note of warning before leaving this point. When you are considering these departmental relationships and work flow, there is often a tendency to rely too heavily on modern systems of internal transportation and communication. With present-day conveyors, escalators, chutes, public address systems, etc., it is possible to create almost any organizational pattern in a new building. But large reliance on mechanical aids is often a tacit confession of faulty organization or inadequate planning. While limited use of such devices is essential today, their use as a crutch to support shortcomings of plan and organization is to be avoided. It will pay you to adopt the premise that no amount of machinery can take the place of close proximity on the part of people whose daily routine requires that they remain in constant contact and communication with each other.

Therefore, in making these preliminary studies leading to optimum-size floors, you may wish to impose some limitations, such as these:

- 1) Employees in the same unit will be located on one floor.
- 2) Staff & supplementary units will be located, as far as possible, on the same floor with related line activities.
- 3) Executives will be situated on the same floor as employees under their direction, or otherwise closely related.
- 4) Line units will be located as to permit major work-flow in one direction. Your problem, therefore, reduces itself to the establishment of floor areas which preserve these relationships while maintaining a balance between economy of space for initial requirements and provision for reasonable expansion.

#### **Location on Site**

Once you know the desirable size of the plot, you must then consider the area of the city best suited to your organization. I will not get into the question of urban vs. suburban building, which is itself complex enough for an entire article of its own. We will assume that you are staying in Manhattan.

The question of location should not be determined by the yardstick of convenience to your executive staff, but on other factors, such as transportation facilities

for your clerical staff. A geographic study of the residences of the main body of your employees may reveal that lower Manhattan, or Columbus Circle, or the Penn Station area will be more convenient for them than Grand Central.

Other considerations that are essential in selecting a site are

- (1) The neighborhood -- do you require or would it be advantageous for you to be close to other organizations in the same or related industries.
- (2) The availability of dining, shopping and recreational facilities.
- (3) Cost of land, and cost of demolition of existing structures, if any.
- (4) Zoning and taxes.

All these studies will best be made with the assistance of a qualified real estate organization. If you do not intend to use your own capital in the construction of the building, then of course the financial institution which will provide such capital will have more than a passing interest in this phase of the program. When completed, you are ready to consider various sites, and select one or two that come closest to your specifications.

Well, your New Building Director has done a lot of work already, and you haven't even got a sketch of the proposed building. Now that you have one or two sites in mind, you obviously need architectural assistance.

By this time, it is no secret that you are contemplating a new building. In fact, it would be almost miraculous if you haven't been given reams of free advice from members of your Board of Directors or top executives of the company that Joe Doakes or John Jones is a fine architect and you should consider his firm. He may in fact be a mediocre architect, but a regular member of the Saturday-Sunday foursome at the golf club. This poses one of the first of many delicate, time-consuming problems with which the New Building Director will be faced, because throughout the entire program he will have to hear pleas for consideration of suppliers and manufacturers who happen to know one of your Directors or top executives.

#### **Selection of Architect**

Now, gentlemen, let's get to one of the major areas for cost control -- that is, the selection of the architect and the builder. These two organizations, when selected, will obviously be important factors in building an efficient, good-looking workshop within your budget or creating a dazzling monument to themselves and you, with the budget getting buried in the cornerstone.

What should the New Building Director look for in an architect? There are so many reputable firms in this highly regarded profession that it would appear that you couldn't go far wrong with any of them. But believe me, you can -- and at great cost to you.

Whatever type of building you have decided upon -- conservative, contemporary or modernistic -- will help to determine your selection, because if you want a conservative building naturally you should select an architect whose major professional achievement has been the design of conservative buildings. You therefore can at the outset of your search narrow the list of prospects down to those who have designed buildings similar to the type you will build. Then quickly eliminate those who, according to your investigation, designed the type of building you prefer, but are known to give little more than passive



cooperation when it comes to controlling costs.

In a building boom period such as we have been experiencing the past several years, many of the architects you will consider may be loaded to the hilt with other work. They won't stress that point to you, but it is something to be wary about. You should determine from each prospect the size of their work load during the period you will be building. And even more important, you should get specific assurance of the full-time availability of at least one senior partner in the firm, as well as the key personnel who would be associated with him on the project. If you don't have at least one top man in the firm assigned exclusively to your project, you and the builder will wind up begging for drawings that won't be forthcoming and which will mean slow down or stoppage of building construction, at painful cost to you.

Then finally you must decide, after investigation and personal interviews, whether these architects are people with whom you would enjoy spending the bulk of your waking hours for the next couple of years. Because, even if your investigation indicates that the firm is qualified and the senior partner and associates will be available full time, if they are not the type of people that you feel comfortable with and could work with compatibly, then don't hire them! It is prudent to take plenty of time in this phase of the program, and a diligent search will reveal just what you want, because there are architects for every taste and every pocketbook.

#### SELECTION OF BUILDER

Now for the builder. Right at the outset, I'll make myself unpopular with most architects because I don't believe in what is fairly standard practice -- hire the architect and have him submit plans to builders for lump-sum competitive bidding, or have him select the builder, who will operate on cost plus fixed fee or other similar type contract.

Even if the bidders are limited to the few you believe are best qualified to do your job, lump-sum competitive bidding is usually undesirable because then the builder will be tempted to (1) provide an over-size "cushion" for himself in his bid, and (2) effect savings throughout which will enure to his benefit only and may in fact be harmful to your building. It may also lead to a much more difficult relationship between the architect and the builder, who will be continually at odds over specifications, substitutes for unavailable materials, etc.

If the architect selects the builder, then it is quite natural that the architect will dominate the program and the builder will not be inclined to offer suggestions that may antagonize his benefactor.

Therefore, I believe that another effective cost control for your new building is the hiring of the builder on a cost plus fixed fee basis at the same time you select the architect. Make them both equal members of your team -- encourage the builder to offer his suggestions for economies even when they conflict with the architect's recommendations, and you can't help but reap substantial benefits from both of them.

#### CONSULTANTS

There is one other type of assistance that probably you should have when organizing a new building program, one on which I don't care to dwell at length because what I will say may be interpreted as self-serving. That is the place of consultants in the program.

The best definition I have ever heard of a consultant

is that he is a man who knows less about your business than you do, yet he gets paid more for telling you how to run it than you could make even if you ran it right instead of the way he tells you.

Of course, that is more than a little unkind. But it has an element of truth in it because there are many so-called consultants who have little if anything to offer.

If you are contemplating a large building program, and there is no one on your staff with broad construction experience, you can well consider the employment of a man who can guide your New Building Director in the technical aspects of building. If you find the right man, you will have established another substantial cost control, because as your representative he will be qualified to evaluate better than the New Building Director the multitude of recommendations you will get from the architect and builder, and to make recommendations of his own based on his background of experience.

The Chase-Manhattan Bank is currently using such a consultant, and finding him most helpful. He is a man who recently retired from the presidency of a construction company. When Mutual of New York started their program, they hired a similar type individual, and I can vouch for the fact that that gentleman, Mr. Hugh Robertson, who built most of Radio City, saved Mutual many times his fee.

Almost any fellow who has ever done an office lay-out but can't hold a regular job winds up as a space planning consultant. Actually, if you have a group in your own organization who have been doing your layouts, you don't need outside assistance for anything more than perhaps a review of your own work.

This can be helpful in two respects -- the consultant may well offer suggestions for improvements in lay-outs, savings in partitioning, etc., based on his experience which has covered a wider area than your own people may have had. He also has the value of being able to support and confirm your own ideas, and his judgment may be better received by your top management if for no reason other than that he is considered to be looking at your problems purely objectively, with no internal departmental rivalries to unbalance him.

As far as hiring interior decorators and the like is concerned, I sincerely believe that there usually is little need for spending extra money for designing special purpose areas such as board rooms, lounges, etc. Today, all the best furniture companies have design departments who can create such special purpose rooms, and you will not only save the decorator's fees, but also the commission most decorators receive either openly or under the table, from such suppliers. Between your architect and a reputable group of manufacturers of special purpose equipment, you should be able to satisfy the requirement for swank in certain areas and at the same time realize substantial economies.

#### INTERNAL ORGANIZATION

Now, gentlemen, you have your architect, your builder, and your New Building Director with his staff.

I mentioned earlier that the Director must have an adequate staff of planning assistants. Let me amplify that a bit. The Director must have one general assistant capable of pinch-hitting for him when necessary. He must also have at his elbow the purchasing group and the planning group which has been servicing your organization's space needs. These two units form the backbone of the Director's staff, and will do a great deal of the



suffering inherent in the program.

Then, to complete the picture, let's awaken those committees we also mentioned earlier.

The sense of participation by all levels of organization is a great asset in a building program, and you should exploit it to the fullest. You might have a committee of senior officers who will meet with the Director at regular intervals, to offer counsel as to major policies regarding departmental relationships, standardization of offices and equipment, etc., etc.

A committee of junior officers might be requested to suggest standards for private offices and equipment for themselves and their peers. If you have such a committee, it is important that the Director and his staff guide their thinking so that they don't upset your over-all planning. Even a committee of clerical people, carefully chosen by your Personnel Department, might be asked to indicate their suggestions re: special areas such as cafeteria, recreational lounges, wash room facilities, and similar matters.

This the main body of employees usually appreciates tremendously. The more publicity you give to this in the company magazine, the better. Practically speaking, they add little to the program, but the psychological value is well worth the small amount of time and trouble it will take.

I recall particularly one company where a committee of clerical employees, all women, were asked to state their preference for any particular chair of a group of posture chairs carefully selected in advance by the Purchasing Division. The women -- some broad-beamed, some slim-lined -- sat on each chair several times, and finally narrowed their choice down to two. After further deliberation, they selected one of the two. The fact is they were identical chairs, except for the upholstery! The one they chose had red upholstery, while the other had green.

Perhaps you may think that borders on the absurd. But I can assure you that the sense of participation in the new building program imbued in the minds of the clerical staff of that particular organization enabled that company to move their headquarters from one part of the city to another without the loss of a single employee, despite the fact that the new location was a hardship, transportation-wise, for a great many of them.

#### **Planning Phase**

Well, gentlemen, we seem to have taken up a lot of time here in setting up the organization for this new building program. We haven't even begun our actual planning of the building, but I can assure you that the more time and thought given to these preliminary problems, the greater will be your chances of building your new offices economically and expeditiously.

Let's sum up what your New Building Director and his staff are now setting out to do:

- (1) Your new building is to be designed as an efficient workshop, a beautiful and outstanding structure but in no sense monumental.
- (2) It will be built at a minimum cost to your stockholders
- (3) It will incorporate all of the newest materials and features wherever these items can be justified on the basis of cost or improved efficiency.
- (4) It will represent a pleasant place in which to work, as well as an efficient one.

Now comes the time for speedy action. Having decided to build and having created the organization with which to do the job, it becomes important to complete the structure in the shortest possible time, for various reasons:

**First** -- The money invested during the construction period is not productive.

**Second** -- It is important to take advantage of the savings available from increased efficiency as quickly as possible.

**Third** -- building costs are still spiralling upward, and your budget may get out of control because of delays in making decisions, letting contracts, etc.

There are many phases to this part of the program, the four most important of which we will now consider briefly if you still have the perseverance to read.

- (1) Standardization of space and equipment.
- (2) Departmental layouts
- (3) Special features for the building
- (4) Progress Meetings

Each of these elements offers an opportunity for cost control, if properly executed. First of all - the standardization of space and equipment. Here is where the New Building Director must ride herd on the planning group and your purchasing division, because the office layouts cannot be done until you have determined private office sizes and sizes of desks, tables and similar equipment for open areas.

Your planning men have probably been attempting for years, with varying degrees of success, to maintain standards of space allocations. There is enough material available on the bookshelves of AMA and NOMA to lend support to almost any set of standards you might wish to adopt, and it is up to your planners to arrive quickly at a recommended list, based on their best judgment of what is fair and reasonable.

Most companies have the problem of executives who are not called vice presidents but who are on approximately the same organizational or salary level, and similar situations at each lower management level. What an unpopular guy the New Building Director becomes in the eyes of each executive who thinks his office should be at least as large as the fellow he envies!

The standards for private executive offices should be submitted to your committees of senior and junior officers for their comments and suggestions. Some of them won't like your ideas, and may argue endlessly that they need larger offices for occasional group meetings, etc. Give them a conference room on each floor, if necessary, but don't waste valuable floor space by granting demands for over-sized offices. This is one of the situations where your New Building Director needs all the diplomacy he can muster and finally the courage to withstand unreasonable pressure and criticism if he can't win by persuasion.

The standards to be adopted for open work areas must be developed by your planning group in the light of the latest developments in functional office furniture and their application to your operations. The day of the traditional 60" x 30" clerical desk is drawing to a close, and lack of consideration of these new ideas in functional furniture can prove extremely costly in wasted floor space, costs which will recur each year that unnecessarily large units of furniture occupy floor space. You simply don't need as many square feet per person in the normal clerical areas today, and with present day building costs, you

can't afford it, either.

These standards should also be submitted to your committees for comments, but if your research is done properly they will be accepted readily. Then your purchasing division goes to work and explores the market. And incidentally, if you are buying a substantial amount of new furniture, your purchasing men will be wined and dined royally for a considerable spell -- let's hope it doesn't affect their judgment! They should require each manufacturer to submit samples of their lines, which you can examine, take apart, and test in every detail.

Now we come to a difficult and often tedious part of the program -- the actual layouts of the departments. Here is a job that your architect may offer to do, or every layout expert in the city will offer to do for you. Even though I am in the business myself, I must in all honesty say that in the average situation there is no need to go to this expense.

Your planning men have had experience in this work, and know your internal operations far better than any outsider. Moreover, you have supervisors of each clerical unit who know better than anyone else how the work should flow in their respective units. This combination of the planning group, which has the over-all company picture in mind, and the supervisor, I believe can do the best job at the least cost to you.

Few, if any, of your supervisors are draftsmen, but you can provide them with plastic grids and templates which are simple to understand and use, and which also will encourage them to exercise their ingenuity to the fullest.

Most important, this will make the supervisor a member of the team, and make it easier for you to have him accept the standards which you have established. He will also become your best salesman in selling the building program to the clerical staff.

If you can organize the lay-out work on this basis, then as I said earlier the only real value of a space planning consultant would be to review periodically what you are doing, and perhaps to render objective reports which may be helpful in presenting your own recommendations or progress reports to the President and Board of Directors.

I won't dwell for long on this next point -- special features for the building -- because it can become too involved. Your Personnel Department -- and your Employees Association, if you have one -- may well ask for the moon in regard to features such as dining areas, gymnasiums, swimming pools, auditoriums, recreational lounges, etc. Of course you will want to provide pleasant non-work areas such as an attractive cafeteria and perhaps officers' and guests' private dining rooms. But if you will apply a rental cost per square foot against any luxury item such as an auditorium and the limited use it will have, you will, I think, be able to convince those asking for such items that they simply are not justifiable.

Now for the last item in this planning phase of the program -- the matter of progress meetings.

When you build a building, hundreds and hundreds of recommendations by the architect and builder must be reviewed and approved by the New Building Director. The only orderly way in which to do this -- and it also is the way to maintain the teamwork you are looking for between the architect and builder -- is to set a schedule whereby at a specific time on a specific day each week, all three will get together and discuss problems and make

decisions, keeping minutes of each meeting for the record and for follow-up on pending matters.

Here is where your New Building Director controls the major costs of building. He will be asked week in and week out, to approve the use of certain materials or the letting of particular subcontracts. He must remain consistent in asking the same questions over and over again until the philosophy of controlling costs becomes imbedded in the minds of the architect and builder: "Will it pay for itself?" "Has this product been proven over a period of time?" "How does it compare in quality and cost with others on the market?"

Perhaps the clearest way to get this point across to you is to cite just one of the hundreds of specific examples I could offer. On a large building in New York, the architect recommended the use of thermopane windows, on the theory that they would effect substantial savings on air-conditioning in the summer and heating in the winter. That made sense, but we fortunately asked not only for the difference in cost between standard sash and thermopane, but also the dollar amount of yearly savings we could expect in heating and air-conditioning through the use of thermopane.

Well, the engineers hadn't figured it out that precisely, The following week, we received a report showing that it would take 51 years to make up the difference in cost between the two types of windows. Naturally, standard sash went into that building. Believe me, this is not too extreme an illustration.

While you may quickly accept most of the recommendations of the architect or builder, if you persist in asking "Why?" you will keep them on their toes and they will become as cost-conscious as the owner must be.

Progress meetings should also be held at regular, specified intervals with whatever committees you have established within your organization. This is principally for the purpose mentioned earlier -- the psychological benefit to be derived from having the broadest possible participation in the program. In addition, as you report progress and problems to these committees, you will gain many useful suggestions -- mostly in the area of items which though small may be of great importance to some level of the organization and should not be overlooked.

One final cost control on this planning phase of the program -- the matter of changes. If you have talked to anyone who has been through this new building experience, you have undoubtedly heard how the bosses continually asked for changes in lay-outs right up to the day they were being moved. Gentlemen, this can add an enormous amount of money to your building costs if you permit such changes. Once you have given the architect your layout plans, all the electrical, plumbing, air-conditioning, telephone and other related plans are given to the sub-contractors as being final. From that time on, every change you make costs money -- frequently, the change is more expensive than the original cost. While recognizing that no progressive organization can remain bound to a particular layout indefinitely, the cost of making changes absolutely requires that you set a deadline date beyond which no such changes will be considered. Even if you hire a new vice president in between the deadline for final plans and actual occupancy of the new building, you will be wise to arrange temporary quarters for him in a conference room or some such area for a time.

(Continued on Page 17)

## CINCINNATI CHAPTER CONDUCTS FORUM ON BUDGETING AT UNIVERSITY



COMES TIME FOR THE SPEECHES

"The Cincinnati Chapter, National Society For Business Budgeting, as guests of the Xavier Accounting Society, will hold its second educational meeting Tuesday evening, March 26. A dinner will be served in the President's Lounge in the Union Building at 6:30 p.m.

"Immediately following the dinner, the meeting will be held in the Cash Memorial Room. Students from Xavier, the University of Cincinnati and Miami will participate in the discussion forum."

The above article was clipped from the March edition of the Xavier University News, and has reference to the CINCINNATI Chapter members attempt to educate the students of the three local universities to the opportunities and challenges open to them in the field of Budgeting.

At present, this annual affair is established on a rotating basis, with the first meeting being held last year at the University of Cincinnati, this year at Xavier University, and next year it is planned to hold the meeting at Miami University at Oxford, Ohio. Ten students and two faculty members from each school are tendered invitations to each meeting, with the chapter members and chapter treasury underwriting the full cost of the dinner and meeting.

Following dinner, and incidentally it is reliably reported that the school's have prepared as fine cuisine as the chapter normally expects at their regular hotel meeting, they adjourned to a meeting hall for a forum. An outline of the program was as follows:

SUBJECT	SPEAKER	TIME
Opening Remarks	Joe Hoffman	5 minutes
Objectives of N.S.B.B.	Mel Aichholz	7 minutes
NSBB Cooperates with All Universities	C. P. Reynolds	7 minutes
Duties of a Budget Director	Glenn Blair	7 minutes
Forecasting Techniques	Larry Haverkamp	7 minutes
Sales Budgeting	Paul Coons	10 minutes
Expense Budgeting	Dick Shaw	10 minutes
Budgeting is an Overlooked Field for the College Graduate	Mel Aichholz	10 minutes
Closing Remarks and Questions	Norm Reinhold	

You can visualize from the program that the subject of Budgeting was well explored in the time allotted to the speaker's session, and it was refreshing to witness the interest generated among the college students about the vague, in their minds, subject of Budgeting.



STUDENTS LISTEN INTENTLY

Mel Aichholz numbers among his other attributes, a passion for shutter-bugging, and he was out in force at this meeting. Two of his efforts are reproduced above, and give evidence of his prowess.



## COST CONTROLS FOR THAT DREAM OF A LIFETIME -- A NEW HOME OFFICE BUILDING (Continued from Page 16)

Not only should you set a deadline for final layouts -- you should also make it clear that no changes whatsoever will be made for a period of sixty to ninety days after occupancy of the new building. The first day or week in the new quarters will be full of requests for changes in offices or open areas -- telephones, buzzers, lights, anemostats, paint colors, etc. If you will simply keep a record of such requests, you will find that 90% of them will have disappeared by the end of the sixty or ninety day waiting period. To undertake to do them as they crop up the first day or week will only add a frightful and unnecessary cost to the building.

### Moving Into Your New Building

I will say only this about office moving: It is not like buying pieces of granite, or light fixtures, or any of the thousands of items that go into a building which you can look at or touch or operate and thereby satisfy yourself as to the quality of the product. This is an intangible service, where you can do no more than select a reputable firm which has handled similar moves to the satisfaction of the customer, and which convinces you that they are qualified to do your job and are the type of people you would like to do business with.

I can only urge you to take as much care in the selection of your mover as you do in selecting your architect and builder.



## NEW MEMBERS

WILLIAM V. HENDERSON, Statistician, Pacific Telephone & Telegraph Co., Los Angeles, California  
 ROBERT H. SPERAW, Budget Accountant, United Geophysical Corp., Pasadena, California  
 MERVYN GOODMAN, Asst. Secy. Treas, National Re-jectors, Inc., Webster Groves, Missouri  
 J. PHILIP NATHAN, V.P. & Controller, Crocker-Anglo National Bank, San Francisco, California  
 L. THOMAS BARROW, Dept. Mgr. Budget & Forecast, Lockheed Aircraft Serv., Inc., Ontario, California  
 BERTRAM BRODER, Financial Co-ordinator-Adv. & Sales Promotion, IBM Corp., Scarsdale, New York  
 CLAYTON D. CAMPBELL, Asst. Section Supervisor-Budgets, Sun Oil Co., Dallas, Texas  
 IRVING M. ANIK, Controller, Bush Terminal Company, New York, New York  
 IRWIN F. REMPERT, Supervision of Budgets, Land-Air, Inc., Chicago, Illinois  
 FRANK ARTHUR BEETON, Controller & Secretary, S & W Foods, Inc., San Francisco, California  
 VINCENT E. BALL, Asst. to Budget Director, Triangle Publications, Inc., Philadelphia, Pennsylvania  
 WM. F. WAGNER, Admin. Budgets-Gen'l Acctng Dept., SKF Industries, Inc., Philadelphia, Pennsylvania  
 HAROLD E. MILLER, Budget Director Industrial Div., Electric Storage Battery Co., Philadelphia, Pa.  
 LARRY SPERLING, Financial Acctng. & Budget Supervisor, Norden-Ketay Corp, East Meadow, Long Island  
 FRANK J. AMADOR, Mgr. of Budget Dept., Creole Petroleum Corp., Caracas, Venezuela  
 GERALD WENTWORTH, Asst. Prof.-Acctng, Stanford Univ., Los Altos, California  
 H. RICHARD HAWLEY, Fin. Control Mgr., Cutter Laboratories, Berkeley, California  
 RUSSELL E. SMITH, Budget Mgr., Kaiser Alum. & Chem. Corp., Oakland, California  
 ARTHUR K. OLSON, Budget Supervisor, Tung-Sol Electric, Inc., Newark, New Jersey  
 CHAS. F. HARTT, Supervisor-Budgeting & Cost Acctng, Modine Mfg. Co., Racine, Wisconsin  
 EARLE B. HIATT, Budget Acct, S.C. Johnson & Son, Inc., Racine, Wisconsin  
 NICHOLAS J. BABICH, Controller, Waukesha Foundry Co., Waukesha, Wisconsin  
 THEODORE P. SCHOTT, Budget Director, Rawlings Mfg. Co., Brentwood, Missouri  
 EMIL J. LAGE, Mgr. Valuation Dept., Pacific Gas & Electric Co., San Francisco, California  
 ANTHONY L. BARBARO, Budget Supervisor, Clearing Machine Corp., Chicago, Illinois  
 KENNETH J. DRAUT, Chief Acct & Budget Director, Std Rate & Data Serv., Inc. Evanston, Illinois  
 F. LEWIS PHILLIPS, Sr. Supervisor-Sales Oper. Dept., Std Oil Co., Chicago, Illinois  
 THOMAS M. ROACH, JR., Budget Mgr., Advance Transformer Co., Chicago, Illinois  
 RICHARD K. COSTELLO, Mgr. Budgets & Controls, Theo. Hamm Brewing Co., San Francisco, Cal.  
 JOAQUIN CUNANAN, Senior Partner-C.P.A., Stewart, Cunanan & Co., Port Area, Manila, Philippines  
 RUDOLPH G. MUHLBERGER, Supvr. Gen & Cost Acctg., McCall Corp., Dayton, Ohio  
 RICHARD W. FRUECHNIGHT, Asst. Controller-Budgets & Analyses, Montgomery Ward & Co Chicago, Ill.  
 PHILIP G. WHELAN, Mgr. Methods, Budgets & Costs, The Stroh Brewery Co., Detroit, Michigan  
 GEORGE E. GREGORY, Jr., Controller, Nelson Stud Welding, Lorain, Ohio (Cleveland)

WALTER L. CONSTANTINE, Mgr. Budgets & Forecasts, United States Rubber Co., New York, N.Y.  
 L. GILLESPIE ERSKINE, Jr., Supvr. of Budgets, St Regis Paper Co., Scarsdale, N.Y. (New York)  
 EARL R. LENGGER, Budget Director, Power Products Corp. Grafton, Wisconsin (Milwaukee)

## ABOUT OUR AUTHORS

HENRY KLOPSTOCK studied economics and law at the Universities of Cologne, Paris and Prague, from where he holds a doctor's degree. From 1935 to 1950 he was connected with large European chemical companies where he was concerned with various economic studies. After his immigration to the United States, he worked for the H.O. Canfield Rubber Company in Bridgeport where he installed and supervised a system of budgetary control. Henry is a charter member of the Bridgeport Chapter, NSBB, where he served as program chairman; in 1955 he transferred to the New York chapter. He has been with AMERICAN CYANAMID as budget accountant since 1954.

PROF. JOHN P. LEWIS obtained his Bachelor of Arts from Union College, Schenectady, in 1941. Master of Public Administration degree from Harvard in 1950, and PhD in economics and government from Harvard in 1953. In addition to this impressive academic background he also taught at Union College from 1946 to 1950, served with the Council of Economic Advisers from 1950 to 1953, and during 1953 was consultant to the United Nations on the Korean problem. Since 1953, Professor Lewis has been a faculty member of the Graduate School of Business at Indiana University.

## BREAK-EVEN ANALYSIS (Continued from page 6)

Finally, a distortion may result if accelerated depreciation is included in the fixed costs. This can be easily corrected by charging only the regular depreciation.

## CONCLUDING SUMMARY

The premises for break-even analysis are:

- A. Separation of fixed and variable costs by applying the analytical and engineering method
- B. Sales mix control based upon the marginal income concept
- C. Careful analysis of special situations like in the case of step costs, rolled up costs, allocation of administrative expenses and study of the behaviour of regulated expense when the business volume goes considerably beyond or below the usual range.

Break-even analysis, which should be replaced by the wider term of profit-volume relation, is useful for a great number of management decisions like new investment, price changes, increase or decrease of expense for sales promotion and advertising. Finally, it can be of particular importance in long range planning as it helps us to determine the capacity range which will enable us to keep our market share in the future without running the risk of overexpansion. In this way we budget men have a chance to save our companies financial losses and even to render a service to our country by helping to plan for a steady and healthy growth of our economy.

## EXCERPTS FROM CHAPTER NEWSLETTERS

Other than the man's name we know nothing about JOHN GARLAND, the speaker at the April meeting of the Northern New Jersey Chapter, but we do believe that you will find the synopsis of the talk written by H. G. MEYER, Newsletter Chairman of the NORTH JERSEY NEWSLETTER an interesting summary of the pertinent points made by Mr. Garland in his discussion of "Economic Forecasting." We quote from the North Jersey Newsletter as follows:

"The meeting was then turned over to Dick Wienke, Chairman of the Program Committee. Our scheduled speaker was Mr. S. Terry Fletcher, Sales Manager of Bristol Myers. Unfortunately, unforeseen circumstances prevented Mr. Fletcher from appearing. However, Dick prevailed upon John Garland to fill the gap, and John came through in his usual cooperative style. 'Economic Forecasting' was the subject of John's presentation. He pointed out that economic forecasting is a specialized field requiring trained company personnel or outside consultants who are able to forecast current economic conditions and extrapolate the data for subsequent years consideration. John displayed a number of interesting charts, the principal one being the Federal Reserve Index of Industrial Production, broken down into 7 major groups.

- 1 - Consumers Perishable Goods
- 2 - Consumers Semi-Durable Goods
- 3 - Consumers Durable Goods
- 4 - Construction Materials
- 5 - Capital Goods
- 6 - Fuels
- 7 - Materials & Supplies

John also stated that the problems of economic forecasting are solved by counting the tributaries that converge to make total economic activity and determine the time position of each tributary.

- No. 1 - Determine the influence of changes in past birth rates and current death rates on the number of persons and households.
- No. 2 - Estimate the normal capacities to consume under the existing mores and physical assets.
- No. 3 - Determine the capacity to produce and how this is related to normal capacity to consume.
- No. 4 - Determine the influence of changes in technology or consumption and production.
- No. 5 - Measure the influences of changes in money conditions.
- No. 6 - Understand how and why the business man decides to add to plant and equipment.
- No. 7 - Understand why decisions are made to build homes, erect stores, office buildings, etc.
- No. 8 - Understand the effect of government intervention.

He also listed nine basic steps necessary in the "Sales Manager's Evaluation of the Budget."

- 1 - A review of economic conditions, 1 year in the future.
- 2 - A review of the past 2 years sales compared to the current forecast by commodity, by branches, by divisions and prices.
- 3 - Review of product addition and deletion as well as increasing and diminishing markets for product.
- 4 - A review of the advertising and sales promotional programs.
- 5 - Selling expenses by branch locations and divisions showing personnel, dollars and ratios of past 2 years compared to current forecast.
- 6 - A review of the research and development program.

- 7 - A review of the profit and loss statements by commodity and divisions.
- 8 - A review of the country quotas assessed to salesmen as well as, branch quotas assessed to managers.
- 9 - A review of the performance compensation for executives and branch managers.

John's presentation was most interesting and was certainly well received."

## CHICAGO NATIONAL CONVENTION WELL PLANNED SUCCESS

First-hand reports on the SEVENTH ANNUAL NATIONAL CONFERENCE held at Chicago on May 23 - 24 indicate that this conference rated an A-Plus in all around planning and execution. An excellent array of distinguished speakers ably covered the full area ascribed to the broad field of Budgeting, and the entertainment and guest accommodations were among the finest offered at any convention.

To the Chicago Committee we wish to express the thanks of the entire NSBB organization for their efforts in making the SEVENTH NATIONAL CONFERENCE a huge success.

We hope to be able to bring to all who were unable to attend the convention a full report in the next issue of BUSINESS BUDGETING, and we believe that those who were fortunate enough to be able to attend will find it possible to re-live some of their experiences, and review at their leisure the broad coverage of the entire budgeting field as projected by the various speakers.



## OFFICIAL CONFORMATION GIVEN TO CANDIDATES FOR NATIONAL OFFICES

At the National Board of Director's Meeting held in Chicago on May 22, 1957 the following members of the National Society for Business Budgeting were reported by the Election Committee to have been elected to the respective offices to which they had been nominated.

President	- Charles H. Eckelkamp - New York Chapter
First Vice President	- Harold C. Mason - Milwaukee Chapter
Secretary	- Kent R. Crawford - Indianapolis Chapter
Treasurer	- Donald L. Cartland - Chicago Chapter
Director - 3 yrs.	- Arthur D. Moor - San Francisco Chapter
Director - 3 yrs.	- Carl O. Wessman - Cleveland Chapter
Director - 1 yr.	- Bernard W. Schaller - Twin-Cities Chapter
Director-At-Large	- Leslie G. Hawkins - Member-at-Large



## PROGRAM INNOVATION?

Maybe it is, and maybe it isn't, but it's the first of its kind that we heard of among NSBB Chapters. The following was the schedule of a TRI-CITIES Chapter program during the current year, and we think it deserves some special recognition for a real fine effort.

### Afternoon Session

- 2:30 - 3:30 A tour of manufacturing operations of the International Harvester Company, Farmall Plant. Too few of us ever take the time to observe manufacturing processes. We should all take advantage of this opportunity to see a large modern factory operation in action. Let's broaden our knowledge of Industry.
- 3:30 - 4:00 We will relax a bit now, and enjoy the hospitality of Farmall Management. Coffee will be served. Maybe doughnuts, if the Budget will allow.
- 4:00 - 5:30 No member should miss this portion of the program. Actually, there will be four main topics.
- (A) Introduction to Office Automation and Integrated Data Processing.
  - (B) Development of Plant Operating Expense Budgets.
  - (C) Preparation of Budget Reports through Electronic Data Processing.
  - (D) Demonstration of the 650 I.B.M. Electronic brain.
- 5:30 - 6:30 Now we are at the Towers for a little diversion. I understand that Art Nielsen and Doug Johnson will act as co-hosts and pool their resources for the pleasure of the membership. Awfully nice of you fellows.

### Evening Session

- 6:30 - 7:30 Our gourmet, Harold Altermatt, has promised a dinner to surpass all his previous efforts. That will mean food at its finest. He insists, however, that serving start at 6:30 sharp!

7:30 Walt Verbeck will show a film on Integrated Data Processing, prepared by the National Office Management Association. This film exhibits and explains various types of equipment available today and applies this equipment to the statistical reporting which today's management demands. This will be followed by a question period. Farmall Staff members will be present to supply the answers.

The entire day's program will be carried on by various members of the Farmall staff. The budget phase will cover the development of budget standards, a brief summary of the budget preparation under the former manual method, and the contrasting Electronic processing now in use. Actual demonstrations of the IBM type 650 machine will be given.

Walt Verbeck, and Farmall Management, are pulling all stops to make this program the best ever. They hope that every member will take advantage of all the features of the afternoon and evening. The Farmall Staff is rightfully proud of their accomplishments and progress in the field of Electronic Data Processing. Their willingness and desire to pass on the knowledge and experience gained, makes their pride a pardonable one.

A more complete program would be difficult to arrange. Don't you agree?

## TAKE AN ACTIVE PART

Are you an active member  
The kind that would be missed,  
Or are you just contented  
To be counted on the list?

Do you attend the meetings  
And mingle with the crowd,  
Or do you stay far, far away  
And crab both long and loud?

Is yours a really active part  
To help good things along,  
Or are you satisfied to be  
The guy to "just belong"?

There's quite a program scheduled  
That means success if done,  
Yes, it can be accomplished  
With the help of everyone.

At least attend the meetings,  
And help with hand and heart,  
And don't be just a member  
Go on! Take an active part!

Just think this over, member,  
Are we right or are we wrong,  
Are you an active member  
Or do you just belong?

The above poem was lifted from the CANTON Chapter Newsletter, and we think that it is worth repeating. This is getting to be a habit because I recall a two line jingle we lifted from this same source for one of our previous issues. If this keeps up, and the organization has need of a poet laureate, we know just the chapter where we would start our search.

## CHAPTER PRESIDENTS

1957-1958

Bridgeport . . . . .	Henry F. Kalweit
Canton . . . . .	DeWitt C. Cox
Chicago . . . . .	Everett E. Yount
Cincinnati . . . . .	E. N. Reinhold
Cleveland . . . . .	Samuel S. Allender
Dallas . . . . .	D. W. Holder
Dayton . . . . .	Eugene F. Middlekamp
Detroit . . . . .	Henry K. Wallstrom
Indianapolis . . . . .	James A. Miles
Los Angeles . . . . .	Harold L. Colman
Louisville . . . . .	L. D. Whiting, Jr.
Milwaukee . . . . .	L. F. Neitzel
New York City . . . . .	Frank J. Gurgone
Northern New Jersey . . . . .	Clarence C. Benedict
Philadelphia . . . . .	A.D. Lagomarsino, Jr.
Rocky Mountain . . . . .	Donald H. Stevens
St. Louis . . . . .	Reid McCrum
San Diego . . . . .	James R. Herbig
San Francisco . . . . .	Howard E. Williams
Tri-Cities . . . . .	Ray Culbertson
Twin Cities . . . . .	Wm. B. Jolly



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